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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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August 6, 2002

TO: Robert Ryans, Director  
Department of Community and Senior Services

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **MID-SAN GABRIEL VALLEY CONSORTIUM**

At your request, we have completed a review of the Mid-San Gabriel Valley Consortium's (MSGVC or Agency) Fiscal Year (FY) 2001-02 expenditure documentation, billing practices, and financial viability. Your request was in response to the Agency's prior year's Single Audit report that identified MSGVC owed the County \$980,000.

Our review included interviewing managers and staff from MSGVC and the Department of Community and Senior Services (CSS). We also reviewed MSGVC accounting and timekeeping records and documentation to support a selected sample of expenditures for which MSGVC received reimbursement. We did not perform tests to determine whether MSGVC met the program requirements of its County contract (e.g., employing qualified staff, etc.)

**Summary of Review**

Overall, MSGVC currently maintains sufficient documentation to support its reported expenditures. In addition, we noted that MSGVC submitted a revised expenditure claim to correct the previous claim that included expenditures that had been previously reimbursed. We did not note any additional errors.

Our review also disclosed that CSS' monitoring of MSGVC's program services is limited. CSS program monitors do not verify with program participants and business owners (who provide on-the-job-training) that MSGVC provided the reported services. In addition, the qualifications of MSGVC staff assigned to the contract are not monitored nor are MSGVC's reported expenditures tracked and reconciled to CSS' accounting records.

We have not yet completed our review of MSGVC's financial viability. To complete our review, the Agency must provide us with its June 2002 bank account reconciliation. The Agency anticipates completing its bank account reconciliation within the next two weeks. Once we receive the reconciliation, we will complete the review and issue a second report.

### **Background**

In May 2002, CSS received MSGVC's Single Audit Report for FY 2000-01 that reported MSGVC had received approximately \$980,000 in excess of actual program expenditures. CSS and MSGVC agreed on a plan in which MSGVC would repay the overpayment to CSS by August 2002.

In June 2002, CSS and Auditor-Controller staff reviewed MSGVC's financial records and expenditure documentation for May 2002 and noted that MSGVC billed CSS for expenses not posted in the organization's official accounting records and double-billed February 2002, March 2002, and April 2002 payroll and fringe benefit expenditures. Your Department did not pay the claims and MSGVC submitted revised claims. Because of the conditions noted during our review of May 2002 financial records, CSS requested an expanded review of MSGVC's expenditure documentation and billing practices that covered FY 2001-02.

### **Claiming/Expenditures**

MSGVC management stated that it now prepares its monthly expenditure claim based on the Agency's accounting records. We traced the amounts of the revised claims to MSGVC accounting records and noted no discrepancies. We also selected a sample of salary, participant wage, tuition, and professional services expenditures for these months to review. Our review included verifying the expenditures were posted to MSGVC's official accounting records, the expenditures had supporting documentation (invoices or timecards), and the expenditures were accurately reported on MSGVC's expenditure claim. We also interviewed a number of MSGVC staff listed on the June 2002 payroll to confirm their employment at MSGVC.

In general, MSGVC provided sufficient supporting documentation for tuition and professional services expenditures. MSGVC also provided timecards that documented staff and participant wage expenditures. In addition, we noted that MSGVC corrected the double-billing of payroll and expenditures noted in our joint June 2002 review. Our review of the Agency's detailed payroll schedules for November, January, March and June disclosed no additional instances of double billing.

During our review, however, we noted areas in which MSGVC can strengthen expenditure documentation to ensure expenditures are appropriate. The following are the areas noted.

- For the Adult, Dislocated Worker and Youth programs, on-the-job training is offered to program participants. The program participants are paid by MSGVC based on the hours reported on timecards prepared by the program participant and approved by a supervisor at the training firm. We reviewed 22 timecards and noted that one was not signed by the program participant and three (14%) were not signed by the supervisor. MSGVC should only process timecards that the program participant has signed and the supervisor has approved.
- The cost allocation method that MSGVC uses to allocate payroll expenses among its different programs is based on the percentage of staff assigned to each program and not on actual hours worked. While the two methods should yield similar results, we recommend that CSS staff review this methodology to verify it is acceptable to them.

### **Monitoring**

During our review we also noted the following areas where CSS can strengthen its monitoring of MSGVC.

- CSS needs to verify the validity of the information reported on documents used to support the Agency's expenditures and service delivery. For example, the number of on-the-job training hours reported as being received by program participants should be verified with the organizations or businesses providing the training. Also, the type of training provided to program participants should be verified. CSS needs to verify a sufficient number of training hours claimed to provide reasonable assurance that invoices reflect actual program services.
- The qualifications of the Agency's staff assigned to work on the County contract are not verified, nor is the actual existence of the staff confirmed. CSS needs to verify job qualifications and employees to ensure it is paying for valid services and employees are qualified to perform program services.
- CSS needs to perform a monthly reconciliation of the amount of expenditures in each service provider's official accounting records (usually the general ledger), the amount of expenditures claimed by the service provider, and the amount that CSS paid to the service provider. Currently, this reconciliation is not performed. CSS should perform this reconciliation by comparing the Agency's expenditure claim and copy of general ledger submitted to the Department's reimbursement records. This reconciliation will help identify instances in which service providers are over/under paid.

### **Financial Viability**

Currently, we are waiting for additional information from MSGVC (June 2002 bank statement reconciliation) in order to complete our financial viability review of MSGVC.

We anticipate receiving this information within the next two weeks. Once the information is received, we will complete the review and issue a second report.

Your staff has reviewed our report and has indicated that CSS has begun to take action to strengthen your Department's monitoring efforts. If you have any question, please call me or have your staff call DeWitt Roberts at (213) 974-0301.

JTM:PM:DR:DC

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